Australian Shareholders' Association

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Flight Centre flies high with record year

Company/ASX Code	Flight Centre/FLT
AGM date	Monday 22 October 2018
Time and location	10am Emporium Hotel South Bank Brisbane QLD
Registry	Computershare
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Kelly Buchanan, Sally Mellick, John Stannard, Mike Stalley, and Peter McInally
Pre-AGM Meeting?	Yes, with Chair Gary Smith, CEO Graham Turner, Chair of Remuneration Committee John Eales, and Investor Relations Manager Haydn Long

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Introduction

Flight Centre has had an outstanding year financially, with strong results, and a healthy balance sheet and cash flows. The shareholders have had a phenomenal year with record dividend payments and an increase of 66% in the share price year on year. TSR for the year is 70%. Net profit after tax (NPAT) has increased by 14.5%, a record.

Flight Centre is an international company with a turnover of $2.95 billion and total equity of $1.55 billion. The global operations, by segment, are Australia and New Zealand 59%, the Americas 22%, Europe, Middle East and Africa 13%, Asia 5% and Other 1%. The operation of each segment is by the internal measurement of segment TTV with a strong correlation to the segment revenue.

Governance and culture

The strategic focus of the business has been a core principle for improvement and future benefits. The implementation of new IT systems has continued with the consolidation of several platforms, although the associated training and logistical issues always accompany these types of projects.

The company has stated that reviewing governance risk culture and the strong corporate culture are not static objectives; they will continue to pursue appropriate risk culture and ethical behaviour. The focus on these matters has been heightened by the ongoing Royal Commission into Banking.

Key events

The business transformation has been ongoing with consolidations and acquisitions of several entities (business combinations) which are readily identified by the balance sheet and cash flow statement.

The ongoing business transformation program, the consolidation, control and acquisition of business combinations gives a positive outlook for the future. Shareholders have endorsed these outcomes as evidenced by the significant and material increase in value they have placed on the share price this year.

Financial analysis

All indicators, except some revenue items, are positive and trending up. While the 2018 Annual Report, p7, explains about some margins being lower, at the consolidated level the figures demonstrate good year on year growth. The management of expenses through a concentrated effort with lower cost margins has offset the reduced revenues margins or simply stated: expenditure increases have been at a lower level than revenue increases.

As the Company makes extensive use of TTV (Total transactional value, an internal measurement and does not represent revenue by the Australian Accounting Standards), analysis of this measure 2017 to 2018 confirms the above with consolidated margins increasing.

The Company has a robust cash position for the year-end June 2018, of $517.5m positive net debt (cash plus financial investments less debt), and a debt gearing ratio of 2.3%, down from 3.9% 2017 so low as to be immaterial. Internal cash funded the acquisition of the business combinations. The 2018 cash amount was $72.66m.

The Company undertook a capital program of $87m in 2018, with 50% spent on information technology and 40% invested in the shop-fronts.

Board change

Ms Colette Garnsey was appointed to the board as a non-executive director in February 2018.

Summary

(As at FYE)	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	264.2	230.8	244.6	256.6
UPAT ($m)	285.4	234.8	269.2	256.6
Share price ($)	63.63	38.30	31.58	34.11
Dividend (cents)	167	139	152	152
TSR (%)	70.4	25.7	-3.0	-19.8
EPS (cents)	260.5	228.5	242.4	254.7
CEO total remuneration, actual ($m)	1.4	0 .64	0.68	0.66

For 2018, the CEO's total actual remuneration was **17 times** the Australian Full time Adult Average Weekly Total Earnings (based May 2018 data from the Australian Bureau of Statistics).

Item 2	**Re-election of Collette Garnsey as a Director**
ASA Vote	**For**

Summary of ASA Position

Collette Garnsey was appointed to the Flight Centre Board in February this year. She is a member of the risk committee. Most notably Ms Garnsey already holds Flight Centre shares to a value in excess of one year's director fees.

Former veteran fashion and retail executive Collette Garnsey has long and varied experience in the sector including additional advisory positions to CSIRO and government. She has been on the board of retail initiatives such as Australian Fashion Week and Melbourne Fashion Festival.

She retired as Premier Investments Director and core brand director for the Just Group in 2017 and has previously held senior management experience with David Jones and Pacific Brands.

Item 3	**Re-election of Robert (Richard) Baker as a Director**
ASA Vote	**For**

Summary of ASA Position

Robert Baker became a director of Flight Centre in 2013. He is a former partner of PwC with experience in retail, travel and hospitality sectors. He is Chair of the risk committee. In 2017 he was appointed Chair of Rightcrowd Limited. He is Chair of Goodman Private Wealth Ltd and holds a number of senior positions for the Catholic church. While he holds a solid shareholding in the company, share price fluctuations can mean his investment in FLT can fall below the desired levels of one year's fees invested after three years on the Board.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

Flight Centre's remuneration structure is unlike any other and has been tailored to encourage key management personnel (KMP) and other employees to take an ownership interest in the company and to encourage retention of valuable employees. Evaluation using ASA Guidelines is difficult because it is so different.

This is a company dependant on sales, and all front-line sales staff have traditionally received bonuses related to sales performance and consequent company earnings. Executives receive fixed pay and may receive a cash bonus each year which are effectively the fixed and short-term incentive (STI) portions of their remuneration. The company also operates a Business Ownership Scheme (BOS), and a BOS Multiplier scheme for a few selected KMPs, a Long Term Retention Program (LTRP) and an Employee Share Plan (ESP). Given the uniqueness of the company's entire remuneration structure, we have determined that the BOS and BOS Multiplier Schemes, taken together, are akin to a long-term incentive scheme (LTI).

Employees may receive a cash bonus as short-term incentive each year which is tied to targets for their areas of responsibility. The level of the hurdles being judged is each year against each employee's pre-determined yearly target is not clear. While we believe this target is usually increased each year, we would prefer the level of achievement to be more clearly disclosed. In 2018, a stellar year for the company, KMP's STI was 10 - 25% of their entire earnings packages. CEO and Founder Graham Turner's STI was a hefty 41% of his remuneration however last year he received no STI and his base pay is modest compared CEO's of comparable sized companies. Not surprisingly, the CEO does not participate in the LTRP, as he already has in excess of $760m shareholding in the company.

The company's Business Ownership Scheme (BOS) and a BOS Multiplier Scheme, taken together, operate as FLT's LTI. Under the BOS scheme, KMP and 60-70% of other staff actually pay money to buy into the business component over which they have control. This ownership interest entitles them to a relative percentage of the profit generated by their business component, according to the amount they invest themselves. The BOS is structured as an unsecured loan (note) from the employee to the company and is governed by a prospectus. The employee must remain employed by the company, their share of profit is deemed to be interest on the note and is reported in their remuneration.

The BOS Multiplier scheme is the true long-term component as it entitles selected KMPs to receive BOS return multiples of 5, 10 and up to 15 times the BOS return, provided they achieve long-term tenure-related hurdles. The BOS and BOS Multiplier Schemes foster ownership of the business and encourage key employees to stay. Having their own money in the business certainly aligns their interests with those of shareholders.

FLT also operates the LTRP, a share based award program, solely to retain staff. Participants receive up to 15% of their targeted base salary as "Base Rights", that is, the right to receive shares three years in the future. For each two "Base Rights", employees also receive one "Matched Right" which entitles the employee to an additional share two years later, provided the Base Rights are still owned and provided the employee remains employed. Shares are usually purchased by the company on market, the number being determined by the volume weighted average price (VWAP) over the ten days following announcement of full year results. Since the first vesting period has not occurred, the impact of the LTRP is yet to be realised. If KMPs retain shares this award program will strengthen employees' 'skin in the game'.

Flight Centre's Employee Share Plan, another retention scheme, allows employees to buy shares. If held for more than two years, and if the employee remains employed, FLT gives them another share.

The annual report contains no clearly identified table of actual take-home pay. Given the complexity and uniqueness of FLT's remuneration system, such a table would be very useful. Our discussions with the company revealed that some executives can expect to receive a significant pot of gold after a long employment period. These BOS multiplier amounts that can be available after 5-15 years of service are dependent upon the company's continued success and obviously motivate executives to work in shareholders' best interests.

Previously FLT called certain guaranteed bonuses 'STI'; they are now deemed fixed pay which is a great improvement. Previously ASA opposed the remuneration report because fixed pay had increased disproportionately to the company's performance and because the LTRP lacked vesting hurdles and clawback provisions. This year we believe the current levels of fixed pay are warranted especially given the company has produced record results. And, on further reflection, and given that the LTRP program only represents an average of 11% of KMP's pay, we no longer regard it as fixed, STI, or LTI. We see it as merely a retention program. The BOS and BOS Multiplier programs, which we regard as the true LTI component, represent an average of 43% of KMP's pay and by their nature are the component that drives profits and long-term shareholder returns.

Although FLT's remuneration is very unusual, it is specifically designed to motivate employees and KMP to produce profits year in and year out. The company has a highly differentiated company culture. Discussing future succession issues, a major focus for the group is to ensure that there is appropriate talent developed and ready to step in when it is time for Mr Turner to bow out. The remuneration framework is designed to retain valuable staff members, all to the benefit of shareholders. Small 'tweaks' in presentation will significantly improve the report's presentation and we will be voting in favour of the remuneration report.

Item 4	**Increase directors' remuneration fee pool**
ASA Vote	**For**

Summary of ASA Position

The fee pool is to be increased by $250,000 to $1.1m to potentially allow for an additional director appointment and any adjustment to director's fees to align with the changes in responsibility or additional director fees. There has been no increase in director's fee pool since 2013, and the new fee pool will be at the lower end of the range for similarly capitalised companies.

Please note any potential conflict as follows: The individuals and their associates involved in the preparation of this voting intention have a shareholding in this company.

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